

24 September 2024

The Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(1) PROPOSED ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE;
AND
(2) CONNECTED TRANSACTIONS IN RELATION TO ISSUE OF NEW
SHARES UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreements (as supplemented by the Supplemental Agreements) with Mr. Kong and Mr. Mak and the transactions contemplated thereunder, details of which are contained in the letter from the Board (the “**Letter from the Board**”) in the circular of the Company dated 24 September 2024 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 7 June 2024 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreements with the Subscribers respectively, pursuant to which the Company has conditionally agreed to allot and issue, and each of the Subscribers has conditionally agreed to subscribe for the Subscription Shares, being a total of 237,600,000 new Shares, at the Subscription Price of HK\$0.055 per Subscription Share, representing an aggregate subscription consideration of HK\$13,068,000 and subject to the terms and conditions set out in the Subscription Agreements. The Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Shareholders and Independent Shareholders at the EGM. The Company and the Subscribers entered into the Supplemental Agreements to extend the Long Stop Date to the 3rd Extended Long Stop Date.

Mr. Kong is the co-chairman and an executive Director and Mr. Mak is a non-executive Director. As such, they are connected persons of the Company under Chapter 14A of the Listing Rules and the entering into of the Subscription Agreements (as supplemented by the Supplemental Agreements) with Mr. Kong and Mr. Mak constitute connected transactions of the Company under the Listing Rules and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Kong and Mr. Mak are connected persons of the Company, they are considered to have a material interest in their subscriptions and had abstained from voting on the resolutions passed by the Board. Mr. Mak, who holds approximately 6.24% of the Shares of the Company as at the Latest Practicable Date, is considered to have a material interest in his subscription to be approved by the Independent Shareholders at the EGM and shall abstain from voting at the EGM. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as of the Latest Practicable Date, save for Mr. Mak and Mr. Kong, HK Monkey Asset Management and Shenzhen Xinhengfeng and their ultimate beneficial owners and Mr. Lee are third parties independent of, and not connected with the Company and its connected persons.

Save as disclosed above, none of the Directors and Shareholders is regarded as having a material interest in the Subscriptions or is required to abstain from voting on the resolutions passed by the Board or from voting at the EGM relating to the Subscriptions and the transactions contemplated thereunder.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Subscriptions with Mr. Kong and Mr. Mak and the transactions contemplated thereunder. We, Amasse Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the independent financial adviser to the independent board committee and the independent Shareholders of the Company for any transaction.

With regard to our independence from the Company, it is noted that, apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

Accordingly, we consider that we are independent from the Company in accordance with Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser and eligible to give independent advice in respect of the Subscriptions with Mr. Kong and Mr. Mak and the transactions contemplated thereunder.

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (collectively, the “**Management**”). We have assumed that all information and representations that have been provided by the Management, for which the Directors are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the representation and confirmation of the Management that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Subscriptions with Mr. Kong and Mr. Mak and the transactions contemplated thereunder. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the Circular and have confirmed, having made all reasonable enquiries, and to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted any independent in-depth investigation into the business and affairs of any members of the Group, the counter party(ies) to the Subscriptions with Mr. Kong and Mr. Mak and the transactions contemplated thereunder or their respective subsidiaries or associates. We also have not considered the taxation implication on the Group or the Shareholders as a result of the Subscriptions with Mr.

Kong and Mr. Mak and the transactions contemplated thereunder. We have not carried out any feasibility study on the past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group. Our opinion has been formed on the assumption that any analysis, estimation, anticipation, condition and assumption provided by the Group are feasible and sustainable. Our opinion shall not be construed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. We expressly disclaim any liability and/or any loss arising from or in reliance upon the whole or any part of the contents of this letter.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreements (as supplemented by the Supplemental Agreements) with Mr. Kong and Mr. Mak and the transactions contemplated thereunder, we have taken into consideration the following factors and reasons:

1. Information of the Group

1.1 Principal businesses of the Group

The Company is a company incorporated under the laws of the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange. The Group is principally engaged in the provision of interior and exterior building decoration and design services in the PRC.

1.2 Financial performance of the Group

Set out below is the summary of the financial performance of the Group for the two years ended 31 December 2022 (“FY2022”) and 2023 (“FY2023”) extracted from the annual report of the Company for the year ended 31 December 2023 (“FY2023 Annual Report”).

	FY2023	FY2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)
Revenue	81,343	378,119
Gross profit	7,114	23,660
Finance costs, net	(11,268)	(5,629)
Loss before tax	(63,524)	(193,417)
Loss after tax	(63,524)	(193,589)

The Group’s revenue for FY2023 decreased by approximately 78.5% from approximately RMB378.1 million to approximately RMB81.3 million as compared to that for FY2022. Such decrease was mainly due to a significant decrease in the contract value in 2023 as a result of the impact of the slowdown of the PRC domestic economy, the surging default events in the PRC real estate sector, the Company’s default on its debt obligations and the capital chain rupture experienced by the Group’s customers.

The Group’s gross profit for FY2023 decreased by approximately 69.9% from approximately RMB23.7 million to RMB7.1 million as compared to that for FY2022, mainly due to the significant decrease in the revenue in 2023 as a result of the impact of the slowdown of the PRC domestic economy.

Finance costs, net, of the Group for FY2023 were approximately RMB11.3 million (FY2022: approximately RMB5.6 million). The increase in finance costs, net, was mainly due to the increase in the interest-bearing bank and other borrowings of the Group in FY2023, as compared with those in FY2022.

The Group’s loss after tax for FY2023 decreased by 67.2% from approximately RMB193.6 million for FY2022 to approximately RMB63.5 million for FY2023. Such change was mainly attributable to the significant decrease in the revenue in 2023 as a result of the impact of the slowdown of the PRC domestic economy.

1.3 Financial position of the Group

Set out below is the summary of the financial position of the Group as at 31 December 2023 as extracted from the FY2023 Annual Report.

	As at 31 December 2023 <i>RMB'000</i> (Audited)
Non-current assets	8,014
Current assets	<u>231,738</u>
Total assets	<u>239,752</u>
Non-current liabilities	32,294
Current liabilities	<u>1,042,457</u>
Total liabilities	<u>1,074,751</u>
Net liabilities	<u>(834,999)</u>
Total equity	<u>(834,999)</u>

1.3.1 Total assets

The total assets of the Group amounted to approximately RMB239.8 million as at 31 December 2023. The major components of the total assets of the Group as at 31 December 2023 were (i) trade and other receivables of approximately RMB122.7 million and (ii) contract assets of approximately RMB86.6 million.

1.3.2 Total liabilities

The total liabilities of the Group amounted to approximately RMB1,074.8 million as at 31 December 2023. The major components of the total liabilities of the Group as at 31 December 2023 were (i) trade and other payable of approximately RMB818.4 million; (ii) bank borrowings of approximately RMB28.8 million and (iii) other borrowings of approximately RMB98.6 million.

1.3.3 Cash and cash equivalents

As at 31 December 2023, the restricted cash and bank and cash balances of the Group amounted to approximately RMB22.3 million and approximately RMB0.2 million, respectively.

2. Information on Mr. Kong and Mr. Mak

Mr. Kong is the co-chairman and executive Director of the Company and Mr. Mak is a non-executive Director of the Company. As at the Latest Practicable Date, Mr. Mak is the beneficial owner of 37,072,000 Shares, representing 6.24% of the Company's issued Shares.

3. Principal terms of the Subscription Agreements

The details of the Subscription Agreements (as supplemented by the Supplemental Agreements) are set out in the Letter from the Board. Set out below is a summary of the principal terms of the Subscription Agreements.

3.1 The Subscription Shares

Pursuant to the Subscription Agreements, the Company has conditionally agreed to allot and issue, and each of the Subscribers has conditionally agreed to subscribe for the Subscription Shares, being a total of 237,600,000 new Shares, at the Subscription Price of HK\$0.055 per Subscription Share, representing an aggregate subscription consideration of HK\$13,068,000 and subject to the terms and conditions set out in the Subscription Agreements (as supplemented by the Supplemental Agreements).

The total number of the Subscription Shares is 237,600,000 Shares, which represents (i) 40% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 28.6% of the enlarged issued share capital of the Company immediately following the Completion (assuming that there are no other changes in the share capital of the Company between the date of the Subscription Agreements and the date of the Completion).

The aggregate nominal value of the Subscription Shares is HK\$23,760.

An aggregate of 148,013,600 Subscription Shares will be allotted and issued to HK Monkey Asset Management, Mr. Lee and Shenzhen Xinhengfeng pursuant to the Specific Mandate proposed to be sought from the Shareholders at the EGM, while an aggregate of 89,586,400 Subscription Shares are to be allotted and issued to Mr. Kong and Mr. Mak pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

3.2 The Subscription Price

The Subscription Price of HK\$0.055 per Subscription Share represents:

- (i) a discount of approximately 3.5% to the closing price of HK\$0.057 per Share as quoted on the Stock Exchange on the date of the Subscription Agreements;
- (ii) a discount of approximately 14.1% to the average of the closing price of HK\$0.064 per Share quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreements;
- (iii) a discount of approximately 15.4% to the average of the closing price of HK\$0.065 per Share quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreements;
- (iv) a premium of approximately 27.9% over the closing price of HK\$0.043 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (v) a premium of approximately HK\$1.61 to the net liabilities of the Company of approximately HK\$1.55 per Share based on (a) the audited net liabilities attributable to owners of the Company of approximately RMB836,715,000 (equivalent to approximately HK\$920,386,500 as at 31 December 2023; and (b) 594,000,000 issued Shares as at the Latest Practicable Date; and
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 4.02%, represented by the theoretical diluted price of approximately HK\$0.06143 per Share to the benchmarked price of approximately HK\$0.064 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the date of the Subscription Announcement of HK\$0.057 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) trading days immediately prior to the date of the Subscription Announcement of HK\$0.064 per Share).

The net Subscription Price, after deduction of relevant expenses, is estimated to be approximately HK\$0.052 per Subscription Share. Save as the consideration of HK\$3,427,252 to be set off against the Loan owed by the Company to Mr. Kong, the aggregate cash consideration of HK\$9,640,748 is payable in cash by the other Subscribers to the Company on or before Completion.

As set out in the Letter from the Board, the Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers taking into account the prevailing market price of the Shares, the Group's historical performances as well as current market condition. With reference to the consolidated net liability position of the Company attributable to owners of the Company as of 31 December 2023 of approximately RMB836,715,000 (equivalent to approximately HK\$920,386,500 as at 31 December 2023 and equivalent to approximately negative HK\$1.55 per Share based on 594,000,000 Shares then in issue), the Subscription Price represents a substantial premium over this amount.

The Company had negotiated with the Subscribers on its best effort for the Subscription Price, however, considering (i) the consolidated net liability position of the Company; (ii) the Shares have been traded at a general downward trend for the last eight months since the resumption of trading in the Shares in January 2024; (iii) a discount was required to act as incentive for the Subscribers to subscribe; (iv) the repayment obligations of the Company in relation to the outstanding indebtedness; and (v) the Subscriptions present an opportunity to reduce the Group's gearing ratio without incurring interest expense and improving the Group's financial position which may be favourable to the Company in exploring other fund-raising methods in the future, the Subscription Price was determined with a discount. Considering the above, the Directors are of the view that the discount is justifiable.

4. Reasons for the Subscriptions and use of proceeds

As set out in the Letter from the Board, the unsatisfactory performance of the Company in recent years is in line with the downward trend of the decoration industry, resulting in challenging business environment for the Company's business. While the property and related industry chain has not yet improved, the Company noted that China has enhanced the efforts in the renewal and iteration of infrastructure and equipment. After four years of industry reshuffle, only a few enterprises can maintain their positions among the top tier of the industry. The Group, as a leading enterprise in the industry, is pursuing for development amid the predicament, and will open up new markets apart from the existing business growth locations.

We noted that, as at 31 December 2023, the Group was over-leveraged, having the total bank and other borrowings amounted to approximately RMB28.7 million and RMB98.6 million, respectively while its unrestricted cash and cash equivalents amounted to only approximately

RMB0.2 million. Based on the scheduled repayment terms set out in the loan agreements, approximately 79% of bank and other borrowings as at 31 December 2023 are repayable within one year. Furthermore, as advised by the Company, the gross proceeds from the Subscriptions are HK\$13,068,000. The net proceeds from the Subscriptions, after deducting the related expenses, are estimated to be approximately HK\$12,300,000. The Company intends to apply approximately 90% of the total net proceeds in the approximate amount of HK\$11,070,000 from the Subscriptions for the repayment of its outstanding indebtedness and interest expenses, and the remaining 10% in the approximate amount of HK\$1,230,000 will be applied to settle its professional fees and be used as its general working capital. The particulars of which are as follows:

- (i) approximately HK\$7,643,000 to partially settle its overdue loan and interest accrued with China Construction Bank which had been due since 2022 in the remaining principal amount of RMB28,774,000, being principal and penalty interest of 8.25% per annum. The Company has two overdue loans with China Construction Bank and the bank has commenced litigation against the Company in relation to one of the loans. Please refer to the section headed “Material Litigation” in the Circular for further details on the litigation. The Company has formulated a plan to settle both loans which is subject to endorsement of the arbitration tribunal. The settlement featured upfront repayment of principal of RMB4,000,000 and accrued interest in the amount of RMB332,331 followed by 11 monthly repayments of between RMB1,000,000 and RMB3,000,000 with the final repayment of RMB13,774,235.60 to be made by end of December 2025. It is expected that it will take up to 2 months for the arbitration tribunal to endorse the settlement plan, i.e. by December 2024. As at the Latest Practicable Date, the Company expects to utilise such proceeds by the end of the first quarter of 2025 and intends to conduct further fund raising exercise for the repayment of the remaining outstanding loans and interest with China Construction Bank in the amount of RMB21,131,000;
- (ii) approximately HK\$3,427,000 to set off against the interest free Loan owed by the Company to Mr. Kong which is due by 30 September 2024. We have discussed with the Management and understand that the Company has been reaching out to its debtors in respect of the debts and settlement arrangements, and only Mr. Kong had shown his willingness in accepting new Shares to set off the Loan which in our opinion, will enhance the Group’s financial position without causing any cash outflow. As at the Latest Practicable Date, the Company expects to utilise such proceeds immediately upon completion of the subscription by Mr. Kong;
- (iii) approximately HK\$615,000 to settle professional fees incurred by the Company, which primarily include outstanding lawyer fees, company secretarial fees, etc. As at the Latest Practicable Date, the Company expects to utilise such proceeds by the end of October 2024; and

- (iv) approximately HK\$615,000 as general working capital of the Group, including rental payment of the Group's office, staff costs and for the Group's day to day operating expenses. As at the Latest Practicable, the Company expects to utilise such proceeds by the end of October 2024.

The Group is in need of external financings with a view to improving the Group's financial position, reducing its debt level (including trading and financial debts) and replenishing working capital for the Company's operations. We have discussed with the Management and were given to understand that the Company has considered other alternative fund-raising methods such as debt financing, rights issue or open offer. The Company considered that debt financing may incur further interest burden on the Group and may be subject to lengthy due diligence and negotiations with the banks with reference to the Group's financial position and the then financial market condition and it may be relatively uncertain and time-consuming. On the other hand, rights issue or open offer may also involve relatively substantial time and cost to complete as compared to the equity financing through issue of the new Shares under Specific Mandate.

Having considered that debt financing (i) would incur finance costs, as compared to the Subscriptions which will improve the Group's gearing without incurring interest expenses; (ii) would be difficult, uncertain and time-consuming in light of the financial condition of the Group, i.e. the Group has recorded consecutive losses for the last two years; and (iii) generally involve pledge of assets and/or securities which may limit the Group's operational flexibility, we concur with the Management that debt financing is not desirable financing alternative for the Group.

In respect of equity financing options such as rights issue and open offer, we understand that (i) pre-emptive fund raising methods normally take at least five to six weeks, and lengthy discussions with potential underwriters may also be involved; (ii) additional costs, including but not limited to placing fees, underwriting commission and other professional fees, are likely to be incurred; and (iii) given the unsatisfactory financial performance of the Group in the past two years, it would be difficult for the Company to conduct rights issue or open offer without offering a considerable discount to attract subscribers.

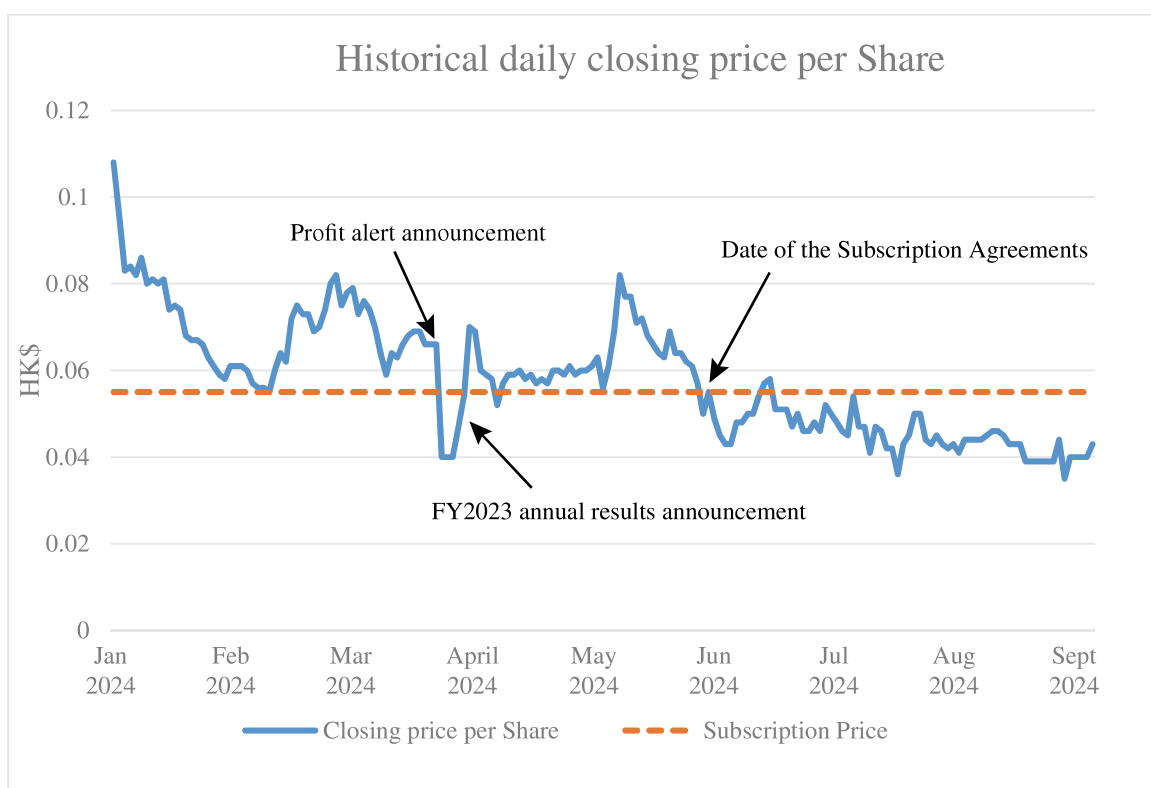
Having considered the above, although the Subscriptions are not in the ordinary and usual course of business of the Group, the Subscriptions can strengthen the financial position of the Group and provide funding to the Group to repay indebtedness and interest expenses of the Group and finance its working capital needs. We are of the view that the Subscriptions would be a better financing, as compared with debt financing, rights issue or open offer. The terms and conditions of the Subscription Agreements (as supplemented by the Supplemental Agreements) are fair and reasonable and are on normal commercial terms, and the Subscriptions are in the interest of the Company and the Shareholders as a whole.

5. Analysis of the Subscription Price

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 8 June 2023 to 20 September 2024 (being the approximately 15-months' period prior to and including the Latest Practicable Date) and compared with the Subscription Price. Nonetheless, trading in the Shares on the Stock Exchange had been suspended from 13 May 2022 to 2 January 2024 due to the delay in publication of the annual results of the Company for the year ended 31 December 2021. As such, the actual review period covers from 3 January 2024 to 20 September 2024 (the “**Review Period**”). We consider the Review Period is adequate, fair and representative to reflect the prevailing market sentiment primarily and illustrate the general trend and level of movement of the daily closing prices of the Shares, which can reflect the correlation between the recent business performance of the Group and the latest market reaction in the Share price.

5.1 Analysis of historical Share price performance

The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:



Source: the website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the daily closing prices of the Shares ranged from HK\$0.035 per Share (the “**Lowest Closing Price**”) recorded on 12 September 2024 to HK\$0.108 per Share (the “**Highest Closing Price**”) recorded on 3 January 2024, and the average closing price of the Shares was approximately HK\$0.06 per Share (the “**Average Closing Price**”).

The Share prices exhibited a general downward trend during the Review Period, decreasing from HK\$0.108 per Share on 3 January 2024 to as low as HK\$0.04 per Share on 28 March 2024 following publication of a profit alert announcement by the Company on 27 March 2024. Then the Share prices shortly rebounded to HK\$0.069 per Share on 10 April 2024 following publication of FY2023 annual results announcement on 5 April 2024, and further to HK\$0.082 per Share on 20 May 2024. Afterwards, the Share prices continued a downward trend, and recorded HK\$0.057 per Share on 7 June 2024 (being the date of the Subscription Agreements), the Lowest Closing Price of HK\$0.035 per Share on 12 September 2024 and HK\$0.043 per Share on the Latest Practicable Date.

The Subscription Price of HK\$0.055 per Subscription Share represents (i) a premium of approximately 57.14% over the Lowest Closing Price; (ii) a discount of approximately 49.1% to the Highest Closing Price; and (iii) a discount of approximately 8.3% to the Average Closing Price.

Despite the Subscription Price represents a discount to the Average Closing Price, after taking into consideration that (i) the Subscription Price falls within the range of the aforesaid historical closing price of the Shares during the Review Period; and (ii) as shown in the chart above, the closing price of the Shares demonstrated a general downward trend over the Review Period, we are of the view that the Subscription Price is fair and reasonable from the perspective of historical trend of the closing prices of the Shares.

5.2 Analysis of trading liquidity of the Shares

The following table sets out (i) the average daily trading volume of the Shares; and (ii) the percentage of average daily trading volume of the Shares to the total number of issued Shares as at the end of the month/period during the Review Period.

					Percentage of average daily trading volume of the Shares to the total number of issued Shares
	Number of trading days	Total trading volume of the Shares for the month/period	Average daily trading volume of the Shares for the month/period	Total number of issued Shares as at the month/period end	
	<i>Days</i>	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>Approx. %</i>
2024					
January (from 3 January 2024)	21	636,032,000	30,287,238	594,000,000	5.10%
February	19	91,088,000	4,794,105	594,000,000	0.81%
March	20	108,676,000	5,433,800	594,000,000	0.91%
April	20	146,094,000	7,304,700	594,000,000	1.23%
May	21	129,646,000	6,173,619	594,000,000	1.04%
June	19	26,464,000	1,392,842	594,000,000	0.23%
July	22	6,720,000	305,455	594,000,000	0.05%
August	22	12,614,000	573,364	594,000,000	0.10%
September (up to and including the Latest Practicable Date)	13	6,374,000	490,308	594,000,000	0.08%

Source: the website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the table above, the average daily trading volume of the Shares was generally low, ranging from 305,455 Shares to 30,287,238 Shares during the Review Period, representing approximately 0.05% to 5.10% of the total issued Shares as at the end of relevant month/period.

As trading in the Shares on the Stock Exchange had been suspended from a prolonged period from 13 May 2022 to 2 January 2024, the average trading volume in January 2024 (following the resumption of trading on 3 January 2024) was relatively much higher than in other months/periods

during the Review Period. Save for the above, it is noted that the monthly average daily trading liquidity of the Shares was generally thin during the Review Period, being less than 2% of the then total issued Shares as at the end of each month/period for at least 8 months/periods during the Review Period. The relatively low trading volume suggests that it would be difficult for the Company to pursue sizeable equity financing alternative in stock market without providing considerable discount.

5.3 Market comparables analysis

To further assess the fairness and reasonableness of the Subscription Price, we have identified, to the best of our knowledge, effort and endeavour, an exhaustive list of 15 comparable transactions (the “**Comparables**”) based on the following criteria: (i) companies listed on the Stock Exchange; (ii) companies that had published announcements in relation to subscription of new shares under specific mandate by connected persons during the period from 8 December 2023 to 20 September 2024 (being approximately 9 months prior to and including the Latest Practicable Date, the “**Comparable Period**”); (iii) excluding issues under share award or for emolument or restructuring scheme or acquisition purposes; and (iv) excluding issues of A shares or domestic shares. We have restricted our comparison to subscriptions by connected persons because we consider transactions such as issues under share award or for emolument or restructuring scheme or acquisition purposes are driven by factors including but not limited to the terms of the share award scheme or the price and terms of the acquisition and target valuation, instead of issuance of shares for fundraising and/or debt reduction purposes (such as the Subscriptions). As for restructuring, it generally involves in substantial changes to the listed issuers’ financial position, operational scale and control, as well as other complex transactions at the same time. Further, issues of A shares or domestic shares may not be able to reflect the prevailing market conditions and sentiment in the Hong Kong stock market as they are not trading on the Stock Exchange. Accordingly, we consider that excluding these transactions would help to provide a more appropriate comparison between the Comparables and the Subscriptions.

We are of the view that the aforementioned criteria are appropriate and that the Comparable Period would provide us with the recent relevant information on the market sentiment, which plays an important role in the determination of the subscription prices of the Comparables in general. The approximately 9 months’ timeframe was adopted to demonstrate the recent market trends with sufficient and representative number of Comparables and thus, we consider the timeframe of the Comparable Period is reasonable and representative. We also noted that the terms of the relevant transactions of the Comparables may vary from companies with different financial standings, business performance and future prospects. We have also disregarded the relevance of comparing the size and use of proceeds from subscriptions carried out by the Comparables as they vary among companies with different purposes for their respective subscriptions. Since the Comparables

are the recent transactions announced to the public, we consider that they represent the recent trend of relevant transactions in the prevailing market condition and could provide a general reference for the terms of the subscription price.

Our relevant findings are summarised in the table below:

Date of announcement	Stock code	Company name	Premium/(discount) of the subscription price over/to the closing price per share for the last five consecutive trading days prior to/up to and including the date of corresponding agreement Approx. %	Premium/(discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of corresponding agreement Approx. %
4 September 2024	8646	China Hongguang Holdings Limited	(42.80)	(34.40)
2 September 2024	8350	Well Link Securities Holdings Limited	65.56	66.67
8 July 2024	209	Winshine Science Company Limited	(9.10)	(9.10)
17 June 2024	1176	Zhuguang Holdings Group Company Limited	21.21	18.34
14 June 2024	8156	Sinopharm Tech Holdings Limited	(18.70)	(18.70)
22 May 2024	8391	Cornerstone Technologies Holdings Limited	12.28	20.75
14 May 2024	989	Hua Yin International Holdings Limited	19.05	6.38
13 May 2024	1262	Labixiaoxin Snacks Group Limited	(5.17)	(15.77)
18 March 2024	1280	China Qidian Guofeng Holdings Limited	(31.37)	(31.64)
15 March 2024	860	Apollo Future Mobility Group Limited	(9.80)	(16.36)
7 March 2024	931	China HK Power Smart Energy Group Limited	0.00	1.42

Date of announcement	Stock code	Company name	Premium/(discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of corresponding agreement	Premium/(discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of corresponding agreement
			Approx. %	Approx. %
9 February 2024	618	Peking University Resources (Holdings) Company Limited	(9.52)	(19.03)
2 February 2024	1520	Virtual Mind Holding Company Limited	(23.66)	(24.81)
12 January 2024	2309	ZO Future Group	(15.00)	(11.41)
22 December 2023	8391	Cornerstone Technologies Holdings Limited	17.14	13.89
		Maximum	65.56	66.67
		Minimum	(42.80)	(34.40)
		Average	(1.99)	(3.59)
		The Company	(3.51)	(14.06)

Source: the website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the table above, the subscription prices of the Comparables:

- (i) ranged from approximately 42.80% discount to approximately 65.56% premium (the “**Market Range**”) with the average being approximately 1.99% discount, to/over their respective closing prices on/prior to the date of the corresponding agreement; and
- (ii) ranged from approximately 34.40% discount to approximately 66.67% premium (the “**5-Day Market Range**”) with the average being approximately 3.59% discount, to/over their average closing prices for the last five consecutive trading days prior to/up to and including the date of the corresponding agreement.

Having considering the above, including (i) the Subscription Price represent a discount of approximately 3.51% to the closing price per Share on the date of the Subscription Agreements, which falls within the Market Range; and (ii) the Subscription Price represent a discount of approximately 14.06% to the average closing price per Share for the last five consecutive trading days immediately prior to the date of the Subscription Agreements, which falls within the 5-Day Market Range. We of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

6. Potential dilution effect on the shareholding of the Company

The shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the date of Completion), are summarised as follows:

	As at the Latest Practicable Date		Immediately upon Completion of the Subscriptions	
	<i>Number of Existing Shares</i>	<i>Approximate Percentage</i>	<i>Number of issued Shares</i>	<i>Approximate Percentage</i>
Directors				
Mr. Fan Shaozhou (“ Mr. Fan ”)				
<i>(Note 1)</i>	55,017,150	9.26%	55,017,150	6.62%
Mr. Mak <i>(Note 2)</i>	37,072,000	6.24%	64,344,727	7.74%
Mr. Chen Li (“ Mr. Chen ”) <i>(Note 3)</i>	19,350,000	3.26%	19,350,000	2.33%
Mr. Kong	—	—	62,313,673	7.49%
Public Shareholders				
HK Monkey Asset Management	—	—	58,790,836	7.07%
Mr. Lee	—	—	26,909,091	3.23%
Shenzhen Xinhengfeng	—	—	62,313,673	7.49%
Other public Shareholders	482,560,850	81.24%	482,560,850	58.03%
Total	594,000,000	100.00%	831,600,000	100.00%

Notes:

1. Among the 55,017,150 Shares, Mr. Fan was deemed to be interested in 55,017,150 Shares held by Fanshaozhou Holdings for the purpose of Part XV of the SFO. Fanshaozhou Holdings Limited is indirectly wholly-owned by CMB Wing Lung (Trustee) Limited, the Trustee of the Fan Family Trust. The Fan Family Trust is a discretionary family trust established by Mr. Fan and for the benefit of himself.

2. Mr. Mak is the beneficial owner of the 37,072,000 Shares.
3. Mr. Chen is deemed to be interested in the 19,350,000 Shares held by Chenli Holdings for the purpose of Part XV of the SFO. Chenli Holdings is indirectly wholly-owned by CMB Wing Lung (Trustee) Limited, the Trustee of the Chen Family Trust. The Chen Family Trust is a discretionary family trust established by Mr. Chen Li and for the benefit of himself.
4. The Subscription Shares of HK Monkey Asset Management, Mr. Lee and Shenzhen Xinhengfeng are expected to form part of the public float after Completion, and the Company is expected to maintain a sufficient amount of public float of at least 25% of the total number of issued Shares after Completion.

As illustrated in the table above, the shareholding of the other public Shareholders would decrease from approximately 81.24% to approximately 58.03% immediately upon Completion, representing a dilution effect of approximately 23.21%.

Nevertheless, taking into account (i) the reasons for and benefits of the Subscriptions as discussed above; (ii) the Subscriptions are an appropriate settlement method currently available to the Group; and (iii) the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the aforementioned dilution effect on the shareholding of the Group is acceptable.

7. Fund raising activities of the Company in the past twelve months

The Company has not conducted any equity fundraising activities in the past twelve months immediately preceding the Latest Practicable Date.

RECOMMENDATION

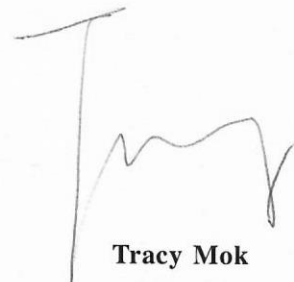
Having taken into account the above principal factors and reasons, in particular that:

- (i) the Subscriptions will help to relieve the Group's financial burden, reduce future financing costs and improve the indebtedness level of the Group;
- (ii) the Subscriptions will enhance the Group's financial position without causing cash outflows and also improve its liquidity;
- (iii) the Subscriptions are considered the preferred method of fundraising as compared to the alternatives, as discussed in the section headed "4. Reasons for the Subscriptions and use of proceeds" above in this letter;
- (iv) the Subscription Price is fair and reasonable, as discussed in the section headed "5. Analysis of the Subscription Price" above in this letter; and

- (v) the potential dilution effect to the existing shareholders is acceptable, as discussed in the section headed “6. Potential dilution effect on the shareholding of the Company” above in this letter,

On balance, we consider that, although the entering into of the Subscription Agreements (as supplemented by the Supplemental Agreements) with Mr. Kong and Mr. Mak are not conducted in the ordinary and usual course of business of the Group, the terms of the Subscription Agreements (as supplemented by the Supplemental Agreements) with Mr. Kong and Mr. Mak and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Subscriptions with Mr. Kong and Mr. Mak are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Subscription Agreements (as supplemented by the Supplemental Agreements) with Mr. Kong and Mr. Mak and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Amasse Capital Limited



Tracy Mok
Director

Ms. Tracy Mok is a licensed person registered with the Securities and Future Commission of Hong Kong and regards as a responsible officer of Amasse Capital Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance industry.

In the case of inconsistency, the English text of this letter shall prevail over the Chinese text.